MICHIGAN PUBLIC SERVICE
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COMMISSION

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the AMERITECH MICHIGAN classification of interzone services as competitive.	Case No. U-12132

NOTICE OF AMERITECH MICHIGAN TO CLASSIFY INTERZONE SERVICE AS COMPETITIVE

Pursuant to Section 208 of the Michigan Telecommunications Act, 1991 PA 179 as amended; MCL 484.2208 (MTA), Ameritech Michigan' hereby files with the Michigan Public Service Commission (Commission) notice that interzone service[2] is classified as competitive for the three geographic areas in Michigan where such service is offered by Ameritech Michigan.

I. INTRODUCTION

Ameritech Michigan is a Michigan corporation engaged in providing telecommunications services to the public in its various exchanges and zones throughout the State of Michigan. These services include, but are not limited to, intraLATA toll and interzone services, as defined or used in MTA Sections 102(ee), 309(2), and 312 respectively.

In the original MTA enacted in 1991, as well as the 1995 amendments, the Legislature recognized that different telecommunications services warrant different regulatory treatment. The differences in regulation under the MTA depend in part on the type of service,

[1] Michigan Bell Telephone Company, a Michigan corporation, is a wholly owned subsidiary of Ameritech Corporation, which owns the former Bell operating companies in the states of Michigan, Illinois, Wisconsin, Indiana, and Ohio. Michigan Bell offers telecommunications services and operates under the names "Ameritech" and "Ameritech Michigan" (used interchangeably herein), pursuant to assumed name filings with the state of Michigan.

whether the service is considered optional or discretionary, the existence or extent of competition by other providers of the service, and other factors.

In addition, the Legislature implicitly recognized that the principal purpose of regulation was to serve as a surrogate or substitute for competition. Therefore, when competition for a service exists, the principal need for economic regulation no longer applies. To that end, the Legislature established a mechanism in MTA Section 208[3], by which a provider may show that once a service is "competitive", the rates for that service are no longer subject to Commission regulation and regulatory review. MTA Section 208 currently provides in part:

> "(1) If a competitive market for a regulated telecommunications service in which the rate is regulated exists in this state, a provider may file with the commission to classify that service for all providers within the competitive market as a competitive service."
>
> (2) Except as provided under section 321, if a regulated service is classified as competitive, the rate for the service shall be deregulated and not subject to review under this act."

Section 208 goes on to set forth the procedures for classifying a service as competitive and the criteria that must be met. Section 208(3) provides that three of the following five criteria must be satisfied for a service to be classified as competitive:

> "(a) Actual competition, including facilities based competition, exists within the local exchange, group or exchanges, or geographic area.

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[2] Inter-zone service is a shorthaul intraLATA toll service for call destinations up to 20 miles. Interzone service is available from Ameritech Michigan only in the Detroit, Pontiac, and Grand Rapids areas. See selected sheets from Tariff MPSC No. 20R attached hereto as Exhibit A.

[3] Before the 1995 amendment, Section 208 provided, in part, as follows:

> "Sec. 208. (1) Where a competitive market for a regulated telecommunication service exists in this state, the commission, by adopting policies and entering orders, may provide for and exercise flexibility in its regulation of that service. The commission shall retain authority to rescind or amend any policy or order issued pursuant to this section.
>
> (2) Upon application by a service provider, the commission may deregulate a service of that provider if the commission finds through a review pursuant to section 203 that competition among providers of that service is sufficient to protect the public interest."

(b) Both residential and business end-users have service alternatives available from more than 1 unaffiliated provider or service reseller.

(c) Competition and end-user usage has been demonstrated and measured by independent and reliable methods.

(d) Rates and charges for the service have changed within the previous 12-month period.

(e) There is a functionally equivalent service, reasonably available to end users from an unaffiliated provider or supplier."

As will be described below and supported by the attached exhibits, interzone service meets more than three of the five criteria, and therefore, may be classified as competitive under Section 208.

II. INTERZONE SERVICE IS COMPETITIVE

Interzone service is a shorthaul intraLATA toll service for calls up to 20 miles and is available from Ameritech Michigan only in Detroit, Pontiac, and Grand Rapids areas. Interzone calling is included in all Ameritech Michigan discount toll plans offered to customers where interzone service is available pursuant to the Commission's February 23, 1993 Opinion and Order in Case No. U- 10238.

It is beyond question that there is more competition in Michigan for intraLATA toll service than any other intrastate telecommunications service. Exhibit B attached hereto provides an overview of the development of intraLATA toll competition, beginning in 1987 and going through the full implementation of intraLATA dialing parity in all Ameritech Michigan service areas in May of 1999. This overview demonstrates that customers anywhere in Michigan have full dialing parity available to them and can subscribe to numerous intraLATA toll

providers. Exhibit C attached hereto contains a list of over 100 providers who are offering intraLATA toll service in Michigan, including shorthaul service.[4]

As a result of the Commission's Orders through 1993, intraLATA toll competition was authorized and in effect by two principle means: (1) For MTS or message toll service, customers could place calls using IXCs by dialing a "10XXX" access code before the number. (2) For WATS or wide area telephone service, customers could presubscribe their WATS lines with an IXC so that intraLATA toll calls could be placed on a dial 1+ basis. Prior to full implementation of intraLATA dialing parity, customers had the functional equivalent of intraLATA toll dialing parity through the use of speed dialing devices, dedicated connections, WATS services, and automatic routing to the IXC of their choice.

In January, 1996, Ameritech Michigan implemented intraLATA dialing parity for 10% of its customers pursuant to MTA Section 312b(1)(a). Pursuant to an implementation plan filed with the Commission in Case No. U-1104 on November 27, 1996, Ameritech Michigan implemented dialing parity for an additional 40% of customers on December 7, 1996. On January 2, 1997, Ameritech Michigan filed its FCC application in CC Docket No. 97-1 to obtain interLATA authority. Pursuant to the FCC mandate and the U-1104 implementation plan, Ameritech Michigan implemented intraLATA dialing parity for an additional 20% of access lines on January 2, 1997. As a result of those steps, as of January 2, 1997, a total of 70% of Ameritech Michigan's intraLATA toll customers could presubscribe to an IXC for their intraLATA toll service.

As discussed above, customers in areas where dialing parity was not available could also continue to place dial around calls by dialing the access code of an IXC of their

[4] Each of the providers listed is offering intraLATA toll service on a presubscription basis in the areas listed. In addition, many, if not virtually all, are offering intraLATA toll service on a 1010XXX "dial around" basis.

choice. In addition, even where dialing parity had been implemented, IXCs specifically promoted dial around calling in their own marketing materials. These materials recognize that dial around not only provides the same service quality as dial 1+, but also that dial around access is "easy, "simple" and more convenient than changing carriers on a presubscribed basis because dial around automatically works on customers' telephones. IXCs touted that dial around calling was better because customers can use dial around immediately; there is nothing for customers to sign up for and no one to notify in order to use dial around.[5]

The IXCs have been using dial around throughout Michigan, and have achieved significant market penetration in the intraLATA toll market. AT&T heavily promoted its "Lucky Dog" campaign for dial around toll service. One of the most recognized marketing campaigns, done through numerous TV, radio, print and direct mail solicitations with actor John Lithgow as the spokesperson was for 10-10-32 1. This dial around service is provided by Telecom USA, which is a wholly owned subsidiary of MCI. At least one independent expert report, published in April 1998 by Salomon Smith Barney, reveals that one third of MCI's billion residential revenues are derived from dial around revenue.

In May of 1999, Ameritech Michigan completed its implementation of intraLATA dialing parity. Ameritech Michigan now offers full intraLATA toll dialing parity in 100% of its exchanges through Michigan. With full dialing parity, customers everywhere can subscribe to any number of toll providers, resulting in vigorous intraLATA toll competition in Michigan. This is precisely the goal envisioned by the Commission in its February 24, 1994 and June 26, 1996 orders in Case No. U-10138.

As indicated above, Exhibit C is a table of intraLATA toll carriers that are offering intraLATA presubscription in each of Ameritech's tandem offices in the State of

[5] See marketing materials in Exhibit F attached hereto, for example.

Michigan.[6] Exhibit D attached hereto lists all the Ameritech Michigan exchanges in which customers have presubscribed to another intraLATA toll provider on a dial 1 basis.

These providers listed on Exhibit C offer a wide range of MTS rates and optional toll calling plans. These competitive service offerings of the IXCs include shorthaul toll calling which is offered by Ameritech Michigan as interzone service. When customers in the Detroit, Pontiac, and Grand Rapids areas presubscribe to another intraLATA toll provider, those providers also carry their "interzone" type calls.[7] AT&T, MCI, and USN specifically offer "interzone calling" as an intraLATA toll service.

The Commission has recognized that interzone service is a specific type of intraLATA toll service, and that extensive competition exists for interzone service. In Case No. U-10238 Ameritech Michigan requested flexible regulation of interzone services so that interzone calls could be included in optional toll plans. In a February 23, 1993 Opinion and Order in Case No. U-l 0238, the Commission stated:

> "The Commission finds that Michigan Bell's proposed rate alteration should be approved. Interzone calling is currently provided in a manner such that most customers do not distinguish it from toll service, and the service is provided on a competitive basis by IXCs. Therefore, the inclusion of interzone calling within optional toll discounts plans is just and reasonable.
>
> Further, the Commission finds that a competitive market exists in Michigan for interzone calling services, which supports the flexible regulation authorized by this order, pursuant to Section 208 of Act 179."

Therefore, by an standard interzone calling is a competitive service.

[6] For each tandem office activated for an IXC, the IXC is providing facilities-based intraLATA toll service in the area served by that tandem. There are nine tandem offices, eight of which are shown on Exhibit C. The newest tandem, the West Bloomfield tandem, was activated in May of 1998 to handle some of the traffic of the Pontiac tandem. Carriers already activated for intraLATA presubscription in the Pontiac tandem are automatically activated in the new West Bloomfield tandem as the trunks are transferred.

[7] See AT&T Tariff MPSC No. 1R, selected pages of which are attached hereto as Exhibit E. Also included in Exhibit E are interzone tariffs for MCI and USN.

III. INTERZONE SERVICE SATISFIES THE SECTION 208(3) CRITERIA

As demonstrated in this section, interzone service offered by Ameritech Michigan meets all five of the five criteria delineated in Section 208(3) of the MTA. Each criterion is set forth below followed by a description of the information which demonstrates how the criterion is met.

(1) Section 208(3)(a) provides: "Actual competition, including facilities based competition, exists within the local exchange, group of exchanges, or geographic area."

This criterion is satisfied because actual competition does exist within the Detroit, Grand Rapids, and Pontiac areas for interzone service. The competition is amply demonstrated by this notice and the above referenced Exhibits B through E. Further support is provided by the marketing, promotional, and advertising materials in Exhibit F attached hereto. For example and included in Exhibit F is information on MCI's 5 cents Everyday and MCI One Savings, and local toll in general. Also included is information on AT&T's local toll service and tariff information on AT&T CTS Basic Schedule Discount and other CTS winback offerings and promotions which also include interzone calling. Information on Sprint Sense local toll service is also included.

(2) Section 208(3)(b) provides: "Both residential and business end-users have service alternatives available from more than 1 unaffiliated provider or service reseller."

This criterion is met. Both residential and business end users have service alternatives for interzone service available from more than one unaffiliated provider or service reseller as depicted in Exhibit C. See also the tariffed offerings of AT&T, MCI, and USN set forth in Exhibit E.

(3) Section 208(3)(c) provides: "Competition and end-user usage has been demonstrated and measured by independent and reliable methods."

Competition and end user usage is demonstrated in part by customer dial around usage.[8] To further demonstrate end user usage with competitors, Ameritech Michigan notes that intrastate/intraLATA originating FGD switched access minutes of use has dramatically grown over time. FGD usage is the actual customer calling of intraLATA toll whether on a dial 1+ or dial-around basis. This proves that once customers choose other providers for intraLATA toll, which includes interzone service, they do in fact make toll calls. The minute of use data shows that this usage has increased dramatically each year since 1997.

IntraLATA toll competition is also evidenced by advertisements, television, and radio transcripts, brochures, news articles, web site information, and Yellow Page ads used by competitors to promote their offerings.[9] A recent consumer alert issued by the MPSC also acknowledged the extent of toll/interzone competition in Michigan. See Exhibit H attached hereto. There the Commission noted: "Consumers now have many telephone services and long distance companies from which to choose."

(4) Section 208(3)(d) provides: "Rates and charges for the service have changed within the previous 12-month period".

This criterion is satisfied because rates and charges for intraLATA toll service have changed frequently within the previous 12-month period. Just a few of these changes are depicted in the following carriers' tariff filings for intraLATA toll rates. See Exhibit J attached

[8] See confidential Exhibit G submitted separately to the Commission under confidential cover in a letter dated September 22, 1999 to the Executive Secretary of the Commission. Also, the extent of this usage was set forth in detail in confidential testimony filed by Ameritech Michigan in MPSC Case No. U- 11743 in late 1998. That confidential information was made available to the Commission and to parties in the case pursuant to a Protective Order.

[9] See Exhibit F attached hereto.

hereto. Examples for AT&T include: (1) Advice No. 249, dated June 30, 1999, introduces the AT&T IntraLATA Card Overlay Plan and decreased the dial station rate for Lucky Dog 1010345 Service; (2) Advice No. 244, dated May 27, 1999, reduces the intraLATA rate for One Rate Plus (a/k/a AT&T Green Sense Offer), AT&T Green Sense II, and AT&T Personal Network; and (3) Advice No. 261, dated September 16, 1999, introduces AT&T Off Peak Plan.

There are examples for other IXCs as well. Examples for MCI rate changes and promotions are included in the marketing material in Exhibit F. An example for Sprint is: Tariff MPSC No. 3R, Part 5, Page 56, dated September 19, 1998, increased the pre-call charge for casual user calling.

(5) Section 208(3)(e) provides: "There is a functionally equivalent service, reasonably available to end users from an unaffiliated provider or supplier." This criterion is satisfied.

In the case of intraLATA toll and interzone service, there is more than just a "functional equivalent" available from several unaffiliated providers or suppliers. Services which the IXCs tout as offering the same or superior technical quality are available. Both business and residence end users have dozens of choices of carriers who provide intraLATA toll and interzone services as depicted in exhibits attached to this notice.

Therefore, it is readily apparent, the criteria in MTA Section 208(3) have been satisfied for interzone service.

IV. EFFECTIVE DATE OF CLASSIFICATION

Pursuant to MTA Sections 208(5) and 208(7), this competitive classification becomes effective 45 days after filing at the Commission upon a showing that there are 3 or

more facilities-based providers serving the geographic area in which the service is declared competitive." In each exchange where interzone service is available from Ameritech Michigan, there are at least three facilities-based local service providers offering competitive services. Exhibit K attached hereto lists the other facilities-based providers of basic local exchange service serving each Ameritech Michigan exchange in which interzone service is available (Detroit, Grand Rapids, and Pontiac).

V. OTHER REQUIREMENTS

MTA Section 208(9) requires that the Commission have approved a TSLRIC study for each service to be classified as competitive. This requirement has been met for interzone calling.

On July 14, 1997, the Commission issued an Opinion and Order in Case No. U-l 1280 approving, with modifications, Ameritech Michigan's TSLRIC cost studies and methodology for offering basic local exchange services, interconnection services, unbundled network elements, and resale services. On January 28, 1998, the Commission issued an Order On Rehearing in Case No. U-l 1280 in which it made limited revisions to the determinations in the July 14, 1997 Order, but it otherwise affirmed approval of TSLRIC studies in the earlier order. The TSLRIC studies approved by the Commission in Case No. U-l 1280 included all of the cost components, elements, and functionalities of interzone calling. These include interoffice switching, tandem switching, switched transport termination, facility, ancillary services, and billing and collection. See the Affidavit of Susan Frentz attached hereto as Exhibit L. Therefore, the Commission has approved the TSLRIC study for all of the cost components of interzone service.

[10] Section 208(5) of the MTA.

VI. CUSTOMER NOTICE

As required by MTA Section 208(6), notice of this competitive classification will be given to affected customers via a bill message prior to the effective date of this filing. Pursuant to MTA Section 208(6), this classification of interzone service shall be effective 45 days from the date of this filing. [11]

VII.

This notice is supported by the following documents attached hereto:

Exhibit A	Ameritech current interzone service tariff sheets
Exhibit B	History of development of intraLATA toll competition in Michigan
Exhibit C	List of intraLATA toll providers in Michigan
Exhibit D	IntraLATA toll presubscription to IXCs by Ameritech Michigan exchange
Exhibit E	AT&T, MCI, and USN interzone calling service tariff sheets
Exhibit F	IXC marketing, promotional, and advertising materials
Exhibit G	Confidential – Michigan dial-around usage
Exhibit H	MPSC Consumer Alert
Exhibit I	Not used
Exhibit J	IXC rate change tariff sheets
Exhibit K	Facilities-based basic local exchange providers in Ameritech Michigan interzone exchange
Exhibit L	Affidavit of Susan Frentz

[11] Exhibit N attached hereto is Ameritech Michigan's illustrative tariff to be filed as of the effective date of the classification of interzone service as competitive.

Exhibit M Affidavit of Jaime Villasenor

Exhibit N Ameritech illustrative interzone service tariff sheet

Ameritech Michigan hereby submits this notice of the competitive classification of interzone service pursuant to MTA Section 208.[12]

Respectfully submitted,

AMERITECH MICHIGAN

By: _____

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[12] Exhibit N is an illustrative tariff sheet which sets forth the notation on the effect of the classification of interzone service as competitive.